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PROGRESS OR PROFIT: RECONSIDERING THE SHORTENED STATUTORY PERIOD SCHEME*

MAX STUL OPPENHEIMER*

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I. INTRODUCTION

The United States Patent and Trademark Office (“USPTO”) is one of the few agencies of the federal government that makes a profit—it earns more in user fees than it spends on operations, thus generating a surplus.¹

One of the user fees contributing to this surplus is the so-called

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¹ See generally U.S. PATENT & TRADEMARK OFFICE, FISCAL YEAR 2017: THE USPTO CONGRESSIONAL BUDGET JUSTIFICATION, (2016) [hereinafter USPTO CONGRESSIONAL BUDGET JUSTIFICATION]. Another profitable agency is the Export-Import Bank. See Christopher Matthews, *The Federal Agency That Makes \$1 Billion for Taxpayers and the Fight to Abolish It*, TIME (Oct. 24, 2013), <http://business.time.com/2013/10/24/the-federal-agency-that-makes-1-billion-for-taxpayers-and-the-fight-to-abolish-it>.

“petition for extension of time” fee.² It is, in effect, a late fee.³ The patent statute gives applicants six months to respond to correspondence from the USPTO, but also gives the Commissioner authority to set a shorter period for response.⁴ The Commissioner has done so, pursuant to this statutory authority.⁵ The Commissioner has, however, provided that if an applicant misses the shorter deadline set by the USPTO, the applicant may file a petition for an “extension of time,” which extends the time for response in one month increments, up to the statutory six month deadline.⁶ The statute provides for fees for such extensions;⁷ the USPTO has set fees for such extensions which are greater than those set forth in the statute.⁸

The USPTO may argue that the difference is explained by the fact that, in addition to the “extension fee” set by the statute, there is also a petition required, and this explains the additional fee. However, the petition is *always* granted if the applicant does two things: (i) submits the petition (which does no more than identify the application and indicate how payment is being made); and (ii) pays a fee.⁹ There is no substantive inquiry into why an applicant has missed the shortened deadline or what impact the delay has had. The procedure amounts to submitting a document which does little more than answer the question: “have you enclosed your check?”

Thus, what might appear superficially to be an effort to improve the flow or quality of the agency’s work and a fee for processing a petition, is arguably, in fact, nothing more than a revenue generator—bringing in nearly \$150 million a year.¹⁰

This Article explores the question of whether patent applicants should applaud the ingenuity of the system as a creative use of financial incentives to expedite and improve the process of obtaining a patent, or criticize it as a thinly disguised misuse of congressional authority solely to generate revenue.¹¹

Part I provides an overview of the patent application process and explains how timing requirements create the opportunity to charge

² 37 C.F.R. §§ 1.17, 1.136 (2018).

³ See discussion *infra* Part II.B.

⁴ 35 U.S.C. § 133 (2012).

⁵ MPEP § 710.02(b) (9th ed. Oct. 2015) (“Under the authority given him or her by 35 U.S.C. § 133, the Director of the USPTO has directed the examiner to set a shortened period for reply to every action. The length of the shortened statutory period to be used depends on the type of reply required. Some specific cases of shortened statutory periods for reply are given below. These periods may be changed under special, rarely occurring circumstances.”).

⁶ 37 C.F.R. § 1.136(a)(1) (2018).

⁷ 35 U.S.C. § 41(a)(8) (2012).

⁸ 37 C.F.R. § 1.17 (2018).

⁹ *Id.*

¹⁰ See USPTO CONGRESSIONAL BUDGET JUSTIFICATION, *supra* note 1, at app. VI.

¹¹ See discussion *infra* Parts II–IV.

“extension of time” fees.¹² Part II describes the relevant statutory provisions and how the patent office has interpreted them to create a revenue source.¹³ Part III explores possible justifications for the system.¹⁴ Part IV introduces the constraints placed on the patent office under the Administrative Procedure Act and how the Act bears on the validity of the system, concluding that the current system does not satisfy the APA requirements of public notice and comment.¹⁵ Part V explores possible options: whether the USPTO can adopt a valid late fee system, whether inventors have any recourse under the current system, and whether there are other ways to accomplish the goal of improving the quality of the patent prosecution process.¹⁶

II. BACKGROUND

A. Patent Prosecution and the Role of Timing

Article I, section 8 of the Constitution establishes the goal of the U.S. Patent system: scientific progress.¹⁷ The Constitution also provides Congress with a tool for accomplishing that goal: the power to grant limited term monopolies.¹⁸ Congress established an agency, the U.S. Patent and Trademark Office, charged with evaluating which contributions to scientific progress are worthy of the grant of the monopoly and the standards by which that determination is to be made.¹⁹ Congress adopted a system which attempts “to reconcile this

¹² See notes and accompany discussion, *supra* Part I.

¹³ See *infra* Part II.

¹⁴ See *infra* Part III.

¹⁵ See *infra* Part IV.

¹⁶ See *infra* Part V.

¹⁷ U.S. CONST. art. I, § 8, cl. 8 (“The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”).

¹⁸ *Id.*

¹⁹ 35 U.S.C. §§ 1–2 (2012). The first patent statute provided for issuance of patents by a board composed of the Secretary of State, the Secretary of War, and the Attorney General if the board considered “the invention or discovery sufficiently useful and important.” Patent Act of 1790, ch. 7, § 1, 1 Stat. 109, 109 (1790) (repealed 1793). The second patent statute provided for the issuance of patents upon petition to the Secretary of State, without examination. Patent Act of 1793, ch. 11, § 1, 1 Stat. 318, 318 (1793) (repealed 1836). In 1802, a separate position was created within the Secretary of State’s office, designated the Superintendent of Patents. See U.S. DEP’T OF COMMERCE & U.S. PATENT & TRADEMARK OFFICE, THE STORY OF THE U.S. PATENT AND TRADEMARK OFFICE 3 (1981); THE U.S. NAT’L ARCHIVES & REC. ADMIN., RECORDS OF THE PATENT AND TRADEMARK OFFICE (2016), <https://www.archives.gov/research/guide-fed-records/groups/241.html>. The Patent Act of 1836 reintroduced an examination system, in response to abuses that predictably resulted from a system in which patents were issued in response to ex parte assertions that the applicant had created an invention. Patent Act of 1836, ch. 357, § 6, 5 Stat. 117, 119 (current version at 52 U.S.C. §§ 1–2 (2012)). The legislative history of the 1836 Act explained the need for an organization charged with examining applications for patents, noting that the earlier statute had produced patents which were ultimately determined to be “worthless and void, as conflicting with, and infringing upon one another, or upon, public rights not subject to patent privileges; arising either from a want of due attention to the

Nation's deep-seated antipathy to monopolies with the need to encourage progress"²⁰ by motivating innovators to disclose trade secrets in exchange for limited-term protection against the manufacture, use, sale, or importation of products incorporating the protected technology.²¹ The statute gives the Director of the USPTO the power to adopt regulations governing procedures before the agency.²² These regulations are contained in volume 37 of the Code of Federal Regulations ("CFR"). Specific internal rules governing the examination of patent applications are contained in the USPTO's Manual of Patent Examining Procedure ("MPEP").²³

The process of obtaining a patent is initiated by filing a written application with the USPTO.²⁴ The application is reviewed by a patent examiner who determines whether the claimed invention meets the requirements of the patent statute.²⁵ The examiner's conclusion and

specifications of claim, or from the ignorance of the patentees of the state of the arts" and "a great number of lawsuits . . . onerous to the courts, ruinous to the parties, and injurious to society." S. REP. NO. 24-239, at 3-4 (1836). In 1849, the Patent Office was moved from the Department of State to the Department of the Interior, and in 1925 it was moved to its current organizational location within the Department of Commerce.

²⁰ *Diamond v. Chakrabarty*, 447 U.S. 303, 319 (1980) (Brennan, J., dissenting); see also *Graham v. John Deere Co.*, 383 U.S. 1, 7-10 (1966).

²¹ 35 U.S.C. § 154(a) (2012) (giving a patent owner the right to prevent competitors from making, using, selling, or importing the patented invention for a period starting on the date the USPTO issues the patent and ending twenty years after the effective date of the application.). Some patent terms are subject to adjustment in certain circumstances related to delays in processing by the Patent Office. 35 U.S.C. § 154(b) (2012). See also *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006); 35 U.S.C. § 284 (2012) (infringing these rights creates liability for damages that are to be no less than "a reasonable royalty"); 35 U.S.C. § 283, 285 (2012) (enabling courts to enjoin infringements in accordance with general equitable principles and authorizing the award of attorney fees in certain cases). For a more detailed analysis of the economic rationale for the patent system, see Max Stul Oppenheimer, *Patents 101: Patentable Subject Matter and Separation of Powers*, 15 VAND. J. ENT. & TECH. L. 1 (2012).

²² 35 U.S.C. § 2(b)(2)(A) (2012) (giving the USPTO authority to establish regulations, "not inconsistent with law" governing proceedings before the agency). The Federal Circuit has held that this does not amount to a grant of authority to make substantive (as opposed to procedural) rules. See *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335 (Fed. Cir. 2008) (citations omitted) ("To comply with section 2(b)(2)(A), a Patent Office rule must be 'procedural'—i.e., it must 'govern the conduct of proceedings in the Office.'"); see also *In re Lovin*, 652 F.3d 1349 (Fed. Cir. 2011).

²³ See, e.g., MPEP § 710.02 (9th ed. Nov. 2015).

²⁴ 35 U.S.C. § 111(a)(1) (2012); see also 35 U.S.C. § 111(b) (2012) (providing for the filing of "provisional" applications which are essentially options to proceed with non-provisional Applications. Provisional applications are not examined for patentability.).

²⁵ 35 U.S.C. § 131 (2012) ("The Director shall cause an examination to be made of the application and the alleged new invention; and if on such examination it appears that the applicant is entitled to a patent under the law, the Director shall issue a patent therefor."); 37 C.F.R. § 1.104(a)(1) (2018) ("On taking up an application . . . the examiner shall make a thorough study thereof and shall make a thorough investigation of the available prior art relating to the subject matter of the claimed invention. The examination shall be complete with respect both to compliance of the application . . . with the applicable statutes and rules and to the patentability of the invention as claimed."); see also *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 483 (1974) ("[N]o patent is available for a discovery, however useful, novel, and nonobvious, unless it falls within one of the express categories of patentable subject matter of 35 U.S.C. § 101."); 35 U.S.C.

reasoning are reported to the applicant in a written document known as an office action.²⁶ The applicant is given at least one opportunity to respond and attempt to convince the examiner that the application discloses a patentable invention.²⁷ The statute requires that the applicant respond within six months.²⁸

If the applicant and examiner reach an agreement on the scope of patentable claims, a patent is issued that gives the owner the right to stop others from making, using, selling (or offering for sale), or importing products incorporating the patented claims for a period of twenty years from the date the application was originally filed.²⁹ If they fail to reach an agreement, the application is denied and the applicant has the option to appeal to the Patent Trials and Appeals Board (USPTO's internal appeals board) or to sue the USPTO in federal district court.³⁰ If the applicant does not respond to the USPTO action within six months, the application is deemed abandoned.³¹ If the USPTO sets a shortened statutory period for response (which it always does), the applicant responds within six months but after the shortened statutory period, and the applicant does not submit a petition for extension and fee, the application is also deemed abandoned.³²

§ 101 (2012)(stating that the claimed invention must fall within one of the four categories of "statutory subject matter" listed in the statute); 35 U.S.C. § 101 ("useful" requirement); *see* MPEP § 2107 (9th ed. Nov. 2015)(interpreted by the PTO to mean that it has a "specific, substantial and credible" use). The invention must also be novel and must not be considered obvious by someone of ordinary skill in the art. *See* 35 U.S.C. § 101–03 (2012). Finally, the invention must be sufficiently described and illustrated so that those of ordinary skill in the art can make and use the invention and distinctly claimed so as to give the public notice of the scope of the patent. 35 U.S.C. § 112–13 (2012). In addition, the format of the claims must comply with internal rules that require that it be a single sentence and meet with other stylistic requirements. *See* MPEP § 608.01 (9th ed. Nov. 2015).

²⁶ *See* 37 C.F.R. § 1.104(a)(2) (2018).

²⁷ *See* 37 C.F.R. § 1.111 (2018) (detailing that the type of response depends on the nature of the examiner's position. In overview, the applicant can either attempt to convince the examiner that the claimed invention is, in fact, patentable or can redefine the claimed invention to address the examiner's reasons for rejecting the claims by amending the application.).

²⁸ 35 U.S.C. § 133 (2012). The current statute also gives the Director of the USPTO the power to shorten the time limit to no less than thirty days. Earlier statutes did not set a time limit for response. *See infra* note 38.

²⁹ 35 U.S.C. § 154 (2012); *see also* 37 C.F.R. § 1.314 (2018) (instructing that under certain circumstances, the term of the patent may be lengthened, typically when there has been undue delay by the USPTO in processing the application, or shortened, typically when there are earlier, related patent applications). These special situations do not affect the analysis of the extension fees. The critical factor in computing the patent term is that it is tied to the date on which the application was filed and that any delay introduced into the application process by the applicant cannot extend the patent term. *Id.*

³⁰ 35 U.S.C. §§ 134, 145 (2012).

³¹ 35 U.S.C. § 133 (2012).

³² *See id.*; 37 C.F.R. § 1.134 (2018); MPEP § 710.02(b) (9th ed. Nov. 2015).

B. *The “Shortened Statutory Period” and Extension Fees*

Unlike most government operations, the USPTO makes a profit.³³ In 2015 (the last year for which such data are available), the USPTO charged slightly in excess of \$3 billion in fees, of which roughly \$2.75 billion were attributable to patent fees.³⁴

One of the fees contributing to this surplus (accounting for \$151 million³⁵ in 2015) is the so-called “petition for extension of time” fee.³⁶ It is, in effect, a late fee created by a mix of statutory and regulatory command.

Once the patent examiner assigned to the case has reviewed it for patentability, the USPTO communicates the results of that review in what is referred to as an “Office action.”³⁷ The patent statute gives applicants six months to respond to correspondence from the USPTO, but also gives the Director of the USPTO authority to set a shorter period for response.³⁸ The director has exercised this power:³⁹ in fact, the Director has “directed the examiner to set a shortened period for reply to *every* action.”⁴⁰ In other words, an applicant is *never* given the full six months Congress established in the statute. In the most common situation, responding to an action by the USPTO on the merits of the application, the Director gives the patent applicant three months to reply,⁴¹ rather than the six months established by Congress.⁴²

The Director has, however, also provided that if an applicant

³³ See USPTO CONGRESSIONAL BUDGET JUSTIFICATION *supra* note 1.

³⁴ See *id.* at app. V.

³⁵ *Id.* at app. VI.

³⁶ 37 C.F.R. § 1.17 (2018).

³⁷ 37 C.F.R. 1.104(a)(2) (2018) (“The applicant . . . will be notified of the examiner’s action. The reasons for any adverse action or any objection or requirement will be stated in an Office action and such information or references will be given as may be useful in aiding the applicant . . . to judge the propriety of continuing the prosecution.”).

³⁸ 35 U.S.C. § 133 (2012) (“Upon failure of the applicant to prosecute the application within six months after any action therein, of which notice has been given or mailed to the applicant, or within such shorter time, not less than thirty days, as fixed by the Director in such action, the application shall be regarded as abandoned by the parties thereto.”). The 1836 patent statute (the first to provide for examination of applications by a patent office) did not set any time limit for responding to patent office correspondence. The statute was amended to require an applicant to respond within a year, then amended again to shorten the time for response to six months. Finally, in 1939, the statute was again amended to give the Commissioner the power to set a shorter time limit for response. HR 6878 (1939)(amending what was then 35 U.S.C. § 37.).

³⁹ 37 C.F.R. § 1.134 (2018)(setting forth the general rule established by the Director: “[a]n Office action will notify the applicant of any non-statutory or shortened statutory time period set for reply to an Office action. Unless the applicant is notified in writing that a reply is required in less than six months, a maximum period of six months is allowed.”).

⁴⁰ MPEP § 710.02(b) (9th ed. Nov. 2015) (“Under the authority given him or her by 35 U.S.C. § 133, the Director of the USPTO has directed the examiner to set a shortened period for reply to every action. The length of the shortened statutory period to be used depends on the type of reply required. Some specific cases of shortened statutory periods for reply are given below. These periods may be changed under special, rarely occurring circumstances.”).

⁴¹ *Id.*

⁴² 35 U.S.C. § 133 (2012).

misses the shortened period, the applicant may file a “petition for extension of time” requesting an extension of time to file a response at any time up to the six-month statutory deadline.⁴³ The petition is both straightforward and non-substantive.

To obtain an extension of time, an applicant must merely file a “petition for an extension of time” and pay the appropriate fee.⁴⁴ A review of the required contents of a petition for extension of time reveals its true nature. The USPTO provides an online form which satisfies the requirements of the petition.⁴⁵ The form contains six blanks that must be filled in by the applicant and a series of check boxes. The blanks require that the applicant:

identify the docket number (which is optional);

identify the USPTO-assigned application number;

state the filing date of the application;

state the title of the application;

identify which art unit the application has been assigned to;
and

identify the USPTO examiner in charge of reviewing the application.⁴⁶

The check boxes ask the applicant to:

state how long an extension is being requested;

state whether special status (which would entitle the applicant to reduced fees because of the annual income of the applicant, not the nature of the invention or the nature of the delay giving rise to the need for an extension) is being claimed;⁴⁷ and

state how payment is being made (check, credit card, USPTO charge account or EFS-Web payment)⁴⁸

Having completed the above steps, the person requesting the

⁴³ 37 C.F.R. § 1.136(a)(1) (2018) (providing “[i]f an applicant is required to reply within a nonstatutory or shortened statutory time period, applicant may extend the time period for reply up to the earlier of the expiration of any maximum period set by statute or five months after the time period set for reply, if a petition for an extension of time and the fee set in § 1.17(a) are filed.”).

⁴⁴ *Id.*; see also MPEP § 710.02(e) (9th ed. Nov. 2015).

⁴⁵ U.S. PATENT & TRADEMARK OFFICE, PETITION FOR EXTENSION OF TIME UNDER 37 C.F.R. 1.136(A), <https://www.uspto.gov/sites/default/files/forms/aia0022.pdf> (last visited Feb. 1, 2018).

⁴⁶ *Id.*

⁴⁷ Certain applicants are entitled to fee reductions based on income and the number of applications previously filed. See 37 C.F.R. §§ 1.27, 1.28 (2018).

⁴⁸ U.S. PATENT & TRADEMARK OFFICE, PETITION FOR EXTENSION OF TIME UNDER 37 C.F.R. 1.136(A), <https://www.uspto.gov/sites/default/files/forms/aia0022.pdf> (last visited Feb. 1, 2018).

extension must sign and date the form, and indicate whether they are the applicant or a representative of the applicant.

The granting of the petition is automatic.⁴⁹ There is no substantive inquiry into why the applicant missed the shortened deadline or evaluation of the impact of the delay. The only inquiry is “have you enclosed a check in the correct amount?” and a petition for extension of time is *always* granted if the applicant pays the “extension of time petition” fee.

The patent statute sets fees for extensions of time.⁵⁰ Under the statute, the maximum fee for extension of time is \$2350.⁵¹ The America Invents Act (“AIA”) gave the Director of the USPTO the power to adjust fees for “services performed” in an amount sufficient to recover costs.⁵² Pursuant to this power, the USPTO raised the congressionally-mandated fees: the USPTO’s current fee schedule established extension fees ranging from \$200 for the first month to \$3000 for a five-month extension.⁵³

Even with these higher fees, extensions appear to be in great demand—in 2014, the USPTO earned \$151 million in extension of time fees⁵⁴ and nearly \$145 million in 2015.⁵⁵ Increasing the cost of obtaining a patent without any offsetting benefit to the applicant or the public seems at odds with the constitutional objective of furthering progress.

It is fair to ask, then, whether the petition requirement (and associated fee system) is an effort to improve the patent prosecution process or simply a revenue generator. The question is fairly directed to Congress as to the concept of “late fees” in general, but it is also fairly

⁴⁹ MPEP § 710.02(e) (9th ed. Nov. 2015)(emphasis added)(“The *filing* of the petition and fee *will* extend the time period to take action [T]he extension will be effective upon filing of the petition and payment of the appropriate fee and *without acknowledgment or action by the Office.*”).

⁵⁰ 35 U.S.C. § 41(a)(8)(A)–(C) (2012) (“For petitions for 1-month extensions of time to take actions required by the Director in an application . . . on filing a first petition, \$130; . . . on filing a second petition, \$360; and . . . on filing a third or subsequent petition, \$620.”).

⁵¹ *Id.* The shortest period for response is one month; therefore, the longest available extension is five months, resulting in a maximum extension fee of \$2350 under the statutory fee schedule.

⁵² Leahy-Smith America Invents Act, § 10(a)(1)–(2), 125 Stat. 284, 316 (2011)(codified as amended at 35 U.S.C. § 41 (2012)) (“The Director may set or adjust by rule any fee established, authorized, or charged under title 35, United States Code . . . for any services performed by or materials furnished by, the Office, subject to paragraph (2). . . . Fees may be set or adjusted under paragraph (1) only to recover the aggregate estimated costs to the Office for processing, activities, services, and materials relating to patents (in the case of patent fees) . . . including administrative costs of the Office with respect to such patent . . . fees.”).

⁵³ The USPTO’s current fee schedule established the cost of extensions as: Extensions for Response within 1st Month (\$200); Extensions for Response within 2nd Month (\$600); Extensions for Response within 3rd Month (\$1,400); Extensions for Response within 4th Month (\$2,200) and Extensions for Response within 5th Month (\$3,000). Setting and Adjusting Patent Fees, 78 Fed. Reg. 4212 (Jan. 18, 2013) (to be codified at 37 C.F.R. pt. 1, 41, 42).

⁵⁴ See USPTO CONGRESSIONAL BUDGET JUSTIFICATION, *supra* note 1, at app. V.

⁵⁵ *Id.* at app. VI.

directed to the USPTO with respect to the rationale (and authority) for shortening the statutorily-allowed response time across the board and for increasing the fees for extending the time back to the statutory time limits above the amounts set by Congress.

II. LATE FEES: AUTHORITY AND ITS EXERCISE

As previously stated, the patent statute gives applicants six months to respond to actions of the USPTO.⁵⁶ It also gives the USPTO the authority to reduce that time limit by setting a “shortened statutory period” for response.⁵⁷ The USPTO has exercised that authority and established shortened periods for response to every action by the USPTO.⁵⁸

The patent statute also authorizes the USPTO to charge fees for extensions of time and sets specific amounts that are a function of the length of the extension and the status of the applicant.⁵⁹ It also authorizes the USPTO to adjust certain fees: the AIA authorizes the USPTO Director to adjust fees “for any services performed by or materials furnished by, the Office.”⁶⁰

Thus the USPTO’s authority is established—and limited—by the combination of three statutory grants of authority: (i) the authority to set extension of time fees;⁶¹ (ii) the authority to set periods for response to USPTO actions that are shorter than the six months provided by statute⁶², thereby making it more likely that an extension of time will be required; and (iii) the authority to adjust the congressionally-set fees for USPTO services,⁶³ thereby increasing the cost of obtaining an extension of time.

The fit between these statutory sections is not perfect. While formally called a “petition fee” (suggesting that some service is being rendered in evaluating the petition), unlike other petitions handled by the USPTO, the petition for extension of time is not substantive and no judgment or effort is required on the part of the USPTO to process the petition.⁶⁴ Thus, the fee for the petition for extension of time is unlike all of the other fees charged by the USPTO. Other fees are payments for

⁵⁶ 35 U.S.C. § 133 (2012).

⁵⁷ *Id.*

⁵⁸ 37 C.F.R. § 1.136 (2018); MPEP § 710.02(e) (9th ed. Nov. 2015).

⁵⁹ 35 U.S.C. § 41 (2012) Longer extensions are progressively more expensive. Discounts are provided for applicants that are “small entities;” greater discounts are provided for applicants that are “micro entities” both of which categories are defined in the statute. *See* 15 U.S.C. § 632 (2012) (defining small businesses); 35 U.S.C. § 123(a) (defining micro entities).

⁶⁰ Leahy-Smith America Invents Act, § 10(a)(1)–(2), 125 Stat. 284, 316 (2011)(codified as amended at 35 U.S.C. § 41 (2012).

⁶¹ 35 U.S.C. § 41 (2012).

⁶² 35 U.S.C. § 133 (2012).

⁶³ Leahy-Smith America Invents Act § 10.

⁶⁴ *See id.*

identifiable services: for example, fees for filing documents,⁶⁵ fees for conducting a patentability search,⁶⁶ fees for filing an appeal,⁶⁷ fees for processing petitions requiring substantive examination,⁶⁸ and fees for issuing an allowed patent.⁶⁹ Other fees even include some fees for late action and involve actual services (in addition to accepting the petition and confirming payment of the fee).⁷⁰ In the case of an extension of time, it is not clear what service the USPTO is providing. The USPTO must conduct the same review of a response to an office action whether that response is filed one day after the action is communicated to the applicant, three months after the action is communicated, or six months after the action is communicated. If the “late fee” petition (which is not substantively reviewed, and is simply a request to accept a filing made within the time authorized by Congress, but after the shortened period set by the USPTO) cannot be characterized as involving a “service,” then it is not authorized by AIA § 10, and therefore the USPTO must find another justification.⁷¹

III. INGENIOUS MOTIVATIONAL TOOL OR VENAL OPPORTUNISM?

Several possible motivations suggest themselves. It is possible to imagine a theory under which something like a service is being rendered.⁷² It is also possible to imagine an argument that the late fee provides an incentive for applicants to move patent applications along quickly and this furthers a national policy.⁷³ Both theories are seriously flawed. And in any event, the responsibility to provide justification for the fees belongs, in the first instance, to the USPTO.

One justification, of course, is apparent from the second part of the administrative rule: the applicant may take the full statutory six months by submitting a non-substantive petition and paying a fee—the USPTO

⁶⁵ Examples of such fees are the fee for filing a patent application and the fee for filing a document (for example, an assignment of ownership). See 37 C.F.R. § 1.16 (2018); see also 37 C.F.R. § 1.19(b)(4) (2018).

⁶⁶ 37 C.F.R. § 1.16(k) (2018).

⁶⁷ 37 C.F.R. § 41.20(b)(1) (2018).

⁶⁸ 37 C.F.R. § 1.17(g) (2018).

⁶⁹ 37 C.F.R. § 1.18(a)(1) (2018).

⁷⁰ See 37 C.F.R. § 1.16 (2018). An example of a late fee justified by services rendered would be the surcharge for late filing of required components of an application. In that case, the USPTO must do extra work—it must retrieve an already-filed application, match it to the newly-filed components and update the records.

⁷¹ Leahy-Smith America Invents Act, § 10(a)(1), 125 Stat. 284, 316 (2011)(codified as amended at 35 U.S.C. § 41 (2012)).

⁷² See sources cited *infra* note 77. The USPTO could certainly argue that it must process the petition. It is difficult, however, to imagine that the cost of placing the petition in the file without substantive consideration remotely approaches the fees charged. See MPEP § 710.02(e) (9th ed. Nov. 2015); see also 35 U.S.C. § 41(a)(8)(A)–(C) (2012).

⁷³ See sources cited *infra* note 77.

wants the money. Is the desire to earn more money a sufficient reason for adopting a regulation, especially for an agency which is taking in more in fees than necessary to operate?

Generally, agency fees are to be set to cover costs and not to further policy goals,⁷⁴ and judging by the revenue still being generated by extension fees, it does not seem to be achieving any goal other than generating revenue. Assuming that the average extension fee paid is simply the average of the lowest fee (\$65) and the highest fee (\$3,000), and then dividing that into the most recent available revenue from extension fees (\$151,000,000)⁷⁵ suggests that there are roughly 100,000 requests for extension per year—a significant fraction of the total number of pending applications.

A second justification is suggested, however indirectly, by the case of *In re Lemelson*.⁷⁶ The *Lemelson* Court noted that Congress had reduced the response time from one year to six months and had given the USPTO the authority to reduce it further in response to a strategy of “submarine patents” (patents resulting from applications where the applicant had deliberately delayed issue in order to extend the term and to trap competitors who spent money not knowing that their actions might conceivably infringe an as-yet unissued patent).⁷⁷

If that is the justification, though, it will prove insufficient because of two statutory changes which took place after *Lemelson* was decided. First, while patent applications were maintained in confidence until issued at the time *Lemelson* was decided (and at the time the petition for extension fees were introduced),⁷⁸ they are now published eighteen months after filing.⁷⁹ Thus, in most cases (an exception is U.S. only applications if the applicant files a petition to prevent publication) competitors will not be kept in the dark for long. At most, no longer than the normal pendency period of a US patent application. Second, at the time *Lemelson* was decided, applicants had an incentive in some

⁷⁴ *Seafarers Int’l Union of North America v. U.S. Coast Guard*, 81 F.3d 179, 183 (D.C. Cir. 1996) (“[P]olicy decisions, whereby an agency could, for example, adjust assessments to encourage or discourage a particular activity, would . . . infringe on Congress’s exclusive power to levy taxes”)(citing *Nat’l Cable Television Ass’n, Inc. v. U.S.*, 415 U.S. 336, 341 (1974)).

⁷⁵ See USPTO CONGRESSIONAL BUDGET JUSTIFICATION, *supra* note 1, at app. VI.

⁷⁶ *In re Lemelson*, 902 F.2d 44 (Fed. Cir. 1990).

⁷⁷ Steve Blount, *The Use of Delaying Tactics to Obtain Submarine Patents and Amend Around a Patent that a Competitor Has Designed Around*, 81 J. PAT. & TRADEMARK OFF. SOC’Y 11, 13 (1999). *Lemelson* was apparently a master of the strategy: “More than five million United States patents have issued from 1914 through 2001. *Lemelson*’s own exhibits demonstrate that . . . *Lemelson* holds the top thirteen positions for the longest prosecutions. Some of the claims asserted by *Lemelson* in this case will not expire until 2011, fifty-five years after the 1956 application was filed and forty-eight years after the application issued as a patent.” *Symbol Techs., Inc. v. Lemelson Med., Educ. & Research Found., L.P.*, 301 F. Supp. 2d 1147, 1156 (D. Nev. 2004).

⁷⁸ 47 Fed. Reg. 41273 (September 17, 1982).

⁷⁹ 35 U.S.C. § 122(b).

cases to delay processing. Patents lasted for seventeen years from date of issue. Under subsequent changes in the patent statute, patents now last for 20 years *from date of application*.⁸⁰ Thus, any delay works against the applicant and removes any incentive to pursue a “submarine patent” strategy.

Therefore, the theory supported by *Lemelson* (if in fact that was the USPTO’s rationale) can no longer support the continued application of late fees.

The USPTO has stated in support of the extension fee that it “incentivizes an applicant to give more consideration to filing an extension of time request, and thereby facilitates the prompt conclusion of application processing, which assists in . . . [c]oncluding prosecution more quickly” which means that “new ideas can go to market faster and provide technological progress”⁸¹ This explanation is puzzling because it is not clear what an applicant who misses the shortened statutory period for response will give “more consideration” to. Failing to pay the fee means the application is abandoned (and may never go to the market or provide technological progress).⁸² The argument would also appear to be undercut by the blanket nature of the rule. In addition, it would seem that getting the maximum term of patent protection would be incentive enough for applicants to move as quickly as possible, and the additional fee would provide little, if any, further incentive. If the USPTO believes that further incentive is required, it would seem that a greater incentive would be provided by promising that a prompt response by the applicant would result in a prompt response by the USPTO. The USPTO already offers this type of incentive in other contexts.⁸³

Finally, even if such a demonstration could be made, the USPTO would also need to show that getting applicant responses in three months rather than six somehow resulted in more efficient or faster action by the USPTO. The latest available data shows that the USPTO takes, on average, 17.3 months to generate its *first* substantive action on

⁸⁰ Effective for applications filed on or after June 8, 1995, the term of patents was changed from 17 years from date of issue (which would defer, but not reduce, the term of the patent and therefore might encourage delaying prosecution) to 20 years from the date the earliest application was filed (which would mean that any delay by the applicant would reduce the total term of the patent). 35 U.S.C. § 154.

⁸¹ *Regulatory Impact Analysis: Setting and Adjusting Patent Fees in Accordance with Section 10 of the Leahy-Smith America Invents Act*, U.S. PAT. & TRADEMARK OFFICE (2013), at 111 [hereinafter *Regulatory Impact Analysis*].

⁸² Applicants still pay hundreds of thousands of extension fees annually. See *infra* note 75 and related text.

⁸³ The USPTO provides several options for expediting processing by either meeting certain conditions, paying extra fees, or submitting applications in a form that makes evaluation easier. 37 C.F.R. § 1.102 (2015).

an application.⁸⁴ Since this period of delay relates to the initial action by the USPTO, by definition the USPTO was not waiting for anything from the applicant; it would seem, therefore, that the most significant delays in processing patent applications are the result of understaffing rather than anything an applicant does.

Administrative agencies are typically delegated authority to “fill the gap[s]” left by Congressional grants of authority.⁸⁵ In theory, the authority is delegated to an agency which has greater expertise in the field than does Congress.⁸⁶ Agencies typically adopt “interpretative rules” designed “to advise the public of the agency’s construction of the statutes and rules which it administers.”⁸⁷ Such rules may be adopted by the agency without formal explanation or public input.⁸⁸ An example would be the USPTO’s Manual of Patent Examining Procedure.⁸⁹ It has no force of law,⁹⁰ but provides guidance as to how the USPTO’s examiners should handle patent applications. When, however, an agency adopts a regulation that affects substantive rights, it must provide its rationale and allow the public to participate in the process of adoption of the regulation.⁹¹

IV. CONSTRAINTS: THE ADMINISTRATIVE PROCEDURE ACT

The USPTO’s regulatory scheme may be a good idea. It is, however, the USPTO’s duty to establish that this is so: the reason that the USPTO adopted the system should be clear,⁹² but is not. The failure to comply with procedural requirements for its adoption is every bit as important as the substantive rule.⁹³

⁸⁴ *Performance and Accountability Report: Fiscal Year 2015*, U.S.P.T.O. (2015), at 19 (indicating a first action pendency goal of 16.4 months and actual first action pendency of 17.3 months).

⁸⁵ *Chevron, U.S.A., Inc. v. NRDC, Inc.*, 467 U.S. 837, 843–44 (1984).

⁸⁶ *Skidmore v. Swift & Co.*, 323 U.S. 134, 139 (1944).

⁸⁷ Tom C. Clark, *Attorney General’s Manual on the Administrative Procedure Act*, U.S. DEPT. OF JUSTICE (1947), at 30 n.3.

⁸⁸ 5 U.S.C. § 553(b)(3)(A) (1966).

⁸⁹ MPEP § 710.02(b).

⁹⁰ *Id.* Interpretative rules may explain ambiguous language in statutes or remind parties of existing duties. However, interpretative rules are not those that create new law. *UPMC Mercy v. Sebelius*, 793 F. Supp. 2d 62, 69 (D.D.C. 2011).

⁹¹ A principal purpose of the APA is to assure public participation in the rulemaking process. *See* COMM. ON ADMIN. PROCEDURE, MONOGRAPHS OF THE ATTORNEY GENERAL’S COMMITTEE ON ADMINISTRATIVE PROCEDURE, S. DOC. NO. 76-186 (3d Sess. 1940); *Erringer v. Thompson*, 371 F.3d 625, 629 (9th Cir. 2004).

⁹² As discussed below, the USPTO’s decision to implement the late fee system was a substantive administrative action and therefore the USPTO was under a duty to propose the system formally and to justify, on the record, the reasons for doing so. *See infra* Section VI(B).

⁹³ “[A]gency discretion is limited not only by substantive, statutory grants of authority, but also by the procedural requirements which ‘assure fairness and mature consideration of rules of general application.’” *Chrysler Corp. v. Brown*, 441 U.S. 281, 303 (1979). The “procedure must be scrupulously observed.” *Vitarelli v. Seaton*, 359 U.S. 535, 547 (1959) (Frankfurter, J., concurring).

Congress has also given the USPTO specific authority with respect to establishing shortened deadlines.⁹⁴

The actual exercise of these powers, however, is rulemaking under the APA⁹⁵ and therefore the regulations setting a “shortened statutory period” for response and establishing the fees for “late” responses are promulgations subject to the APA.⁹⁶

The most recent overhaul of the patent statute, the America Invents Act,⁹⁷ specifically deals with the issue of fee-setting: it “allows the USPTO to set or adjust all of its fees, including those related to patents and trademarks, so long as they do no more than reasonably compensate the USPTO for the services performed.”⁹⁸ The authority conferred by the AIA is not, however, unconstrained.

Although administrative agencies are created by Congress, they are components of the executive branch of government with the power to adopt rules. They therefore present an inherent issue for separation of powers. The principal issues are whether the legislature can delegate rule making authority to an executive branch agency, and whether the judicial branch must defer to decisions made by agencies.

The Administrative Procedure Act is an attempt to create a framework for the resolution of those issues.⁹⁹ It provides that in considering administrative action, “the reviewing court shall decide all relevant questions of law, [and] interpret constitutional and statutory provisions.” The courts, however, have held that certain agency actions are entitled to judicial deference.¹⁰⁰

⁹⁴ 35 U.S.C. § 133 (2013).

⁹⁵ A “rule” is defined as “the whole or a part of an agency statement of general or particular applicability and future effect . . . and includes the approval or prescription for the future of rates, . . . prices . . . services or . . . costs, or accounting, or practices bearing on any of the foregoing.” 5 U.S.C. § 551(4) (2011). “[R]ule making” is defined as the “agency process for formulating, amending, or repealing a rule”. 5 U.S.C. § 551(5) (2011). In this case, the action of setting a shortened statutory period and charging a fee for taking the full statutory time allowed affects a license as defined by the APA. “[L]icensing” is defined to include any “agency process respecting the grant, renewal, denial . . . limitation, amendment, modification, or conditioning of a license” 5 U.S.C. § 515(9), while a “license” is defined to include “the whole or a part of an agency . . . approval”. 5 U.S.C. § 515(8). Under this definition, issuing a patent would constitute granting a license.

⁹⁶ Setting the fee and requiring its payment as a condition for further processing of a patent application falls within the APA’s definition of “sanction”, which “includes the whole or a part of an agency— . . . (C) imposition of penalty or fine; (D) destruction, taking, seizure, or *withholding* of property; . . . [or] (G) taking other compulsory or restrictive action. 5 U.S.C. § 515(10).

⁹⁷ Public Law 112–29, Sept. 16, 2011.

⁹⁸ H.R. REP. NO. 112–98, pt. 1, at 47 (2011).

⁹⁹ 5 U.S.C. § 500 (2000).

¹⁰⁰ While these issues are currently resolved through the “Chevron” and “Auer” deference, there are signs that concerns remain. Representative John Ratcliffe and Senator Orrin G. Hatch introduced the Separation of Powers Restoration Act, S. 2724 and H.R. 4768, “grounded on the basic principle that courts, not agencies, have the power to decide questions of law and to hold agency officials accountable to the law. . . . The bill is remarkably straightforward: it merely clarifies the APA to restore de novo judicial review of questions of law.” *Congress Must Act to*

A. Deference in Review of USPTO Regulations

The USPTO has, of course, only the power granted it by Congress. Moreover, as an administrative agency, the USPTO is subject to the Administrative Procedure Act. Among the USPTO's powers is a general power to "establish regulations, not inconsistent with the law, which . . . shall govern the conduct of proceedings in the Office."¹⁰¹ The Federal Circuit has, however, held that this "does not vest the USPTO with any general substantive rulemaking power"¹⁰²—it only grants the power to make procedural rules.

In reviewing administrative regulations, courts owe certain deference under certain circumstances.¹⁰³ In the case of establishing late fees, there are competing theories of whether courts should grant special deference to the agency.

Scheduling matters are generally viewed as being "definitely at the procedural end of a spectrum running from 'procedural' to 'substantive.'"¹⁰⁴ Viewed as an entirety, though, the extension of time fee system does more than establish scheduling: it also imposes fees¹⁰⁵ and has the potential to deprive applicants of the right to proceed.¹⁰⁶

The basic principle governing judicial deference to administrative action is referred to as "Chevron deference."¹⁰⁷ In summary, Chevron establishes three broad principles:

- 1) "When a court reviews an agency's construction of the statute which it administers, it is confronted with two questions. First, always, is the question whether Congress has directly spoken to the precise question at issue.¹⁰⁸ If the intent of Congress is clear, the court, as well as the agency, must give

Restore Accountability to the Regulatory Process, by Senator Orrin G. Hatch, YALE J. REG. (2016), <http://yalejreg.com/nc/congress-must-act-to-restore-accountability-to-the-regulatory-process-by-senator-orrin-g-hatch/>.

¹⁰¹ 35 U.S.C. § 2(b)(2)(A) (2012).

¹⁰² *Cooper Techs. Co. v. Dudas*, 536 F.3d 1330, 1335 (Fed. Cir. 2008) ("To comply with section 2(b)(2)(A), a Patent Office rule must be 'procedural'—i.e., it must 'govern the conduct of proceedings in the Office.'"); *Merck & Co., Inc. v. Kessler*, 80 F.3d 1543, 1550 (Fed. Cir. 1996); *Tafas v. Dudas*, 541 F. Supp. 2d 805, 811 (E.D. Va. 2008).

¹⁰³ *Auer v. Robbins*, 519 U.S. 452, 461 (1997).

¹⁰⁴ *Lamoille Valley R. Co. v. I.C.C.*, 711 F.2d 295, 328 (D.C. Cir. 1983).

¹⁰⁵ "Policy decisions, whereby an agency could, for example, adjust assessments to encourage or discourage a particular activity, would . . . infringe on Congress's exclusive power to levy taxes." *Seafarers Int'l Union v. U.S. Coast Guard*, 81 F.3d 179, 183 (D.C. Cir. 1996).

¹⁰⁶ When an applicant files a reply after the expiration of the shortened statutory period (but before the expiration of the statutory six month period), the reply will only be accepted if accompanied by a petition for extension of time and the required fee. MPEP § 710.02(e) ("If an applicant is required to reply within a . . . shortened statutory time period, applicant may extend the time period for reply . . . if a petition for an extension of time *and the fee* are filed . . ."). Thus, failure to pay the fee will result in abandonment of the application. 35 U.S.C. § 133; MPEP § 710.

¹⁰⁷ *Chevron, U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837 (1984).

¹⁰⁸ *Id.* at 842.

effect to the unambiguously expressed intent of Congress.¹⁰⁹ If, however, the court determines Congress has not directly addressed the precise question at issue, the court does not simply impose its own construction on the statute, as would be necessary in the absence of an administrative interpretation.¹¹⁰ Rather, if the statute is silent or ambiguous with respect to the specific issue, the question for the court is whether the agency's answer is based on a permissible construction of the statute."¹¹¹

2) "If Congress has explicitly left a gap for the agency to fill, there is an express delegation of authority to the agency to elucidate a specific provision of the statute by regulation. Such legislative regulations are given controlling weight unless they are arbitrary, capricious, or manifestly contrary to the statute."¹¹²

3) "[C]onsiderable weight should be accorded to an executive department's construction of a statutory scheme it is entrusted to administer . . . whenever decision as to the meaning or reach of a statute has involved reconciling conflicting policies, and a full understanding of the force of the statutory policy in the given situation has depended upon more than ordinary knowledge respecting the matters subjected to agency regulations 'If this choice represents a reasonable accommodation of conflicting policies that were committed to the agency's care by the statute, we should not disturb it unless it appears from the statute or its legislative history that the accommodation is not one that Congress would have sanctioned.'"¹¹³

Thus, Chevron deference requires that courts should defer to administrative agency interpretations of their organic statutes unless the interpretations are unreasonable. If the statute unambiguously addresses the issue, then the statute controls; if the statute is ambiguous, then the agency's interpretation should be accepted unless it is arbitrary or capricious.¹¹⁴

A slightly different issue is presented when the agency is

¹⁰⁹ *Id.* at 842–43.

¹¹⁰ *Id.* at 843.

¹¹¹ *Id.*

¹¹² *Id.* at 843–44.

¹¹³ *Id.* at 844–45 (emphasis added).

¹¹⁴ *Id.* (Environmental Protection Agency); *Astrue v. Capato*, 566 U.S. 541 (2012) (Department of Labor); *Holder v. Martinez Gutierrez*, 566 U.S. 583 (2012) (Board of Immigration Appeals). Chevron deference creates a separation of powers tension. Agencies are executive branch entities. Some feel that courts defer to executive agencies, or, for that matter, some feel that Congress delegating authority to the executive branch is problematic. There have been legislative efforts to overrule *Chevron* and *Auer*, such as the Separation of Powers Restoration Act.

interpreting, not the statute which it administers, but its own regulations. This issue is controlled by so-called “Auer deference” which requires courts to defer to an agency’s interpretation of its own regulations provided the interpretation is not “plainly erroneous or inconsistent with the regulation.”¹¹⁵

Thus, the first two issues would be whether the USPTO’s system of shortened statutory periods and late fees is procedural (and therefore within the USPTO’s rulemaking authority) or substantive (and therefore beyond the USPTO’s rulemaking authority), and if it is procedural, whether it is an interpretation of the statute or of the USPTO’s own regulations.

Deference is especially favored where the agency has special expertise with respect to the regulation.¹¹⁶ Thus, an additional issue would be whether the USPTO has special expertise in setting deadlines for processing patent applications (and whether the universal shortened period is inconsistent with the six months set by Congress) or in setting the price for missing the shortened statutory period for response.

B. The Notice and Comment Requirement

As part of establishing the extension fee system, the USPTO should have given public notice of the proposal and underlying rationale.¹¹⁷ In the most recent notice proposing fee changes, there is extensive discussion of policy and there are conclusory statements to the effect that the fee increases help “facilitate effective administration of the patent system by encouraging applicants or patent holders to engage in certain activities that facilitate an effective patent system.”¹¹⁸ The regulatory impact analysis supporting the proposed changes is little more enlightening: “The increase in the extension of time fees incentivizes an applicant to give more consideration to filing an extension of time request, and thereby facilitates the prompt conclusion of application processing, which assists in reducing patent application pendency. Concluding prosecution more quickly also has wider societal

¹¹⁵ Auer v. Robbins, 519 U.S. 452, 461 (1997).

¹¹⁶ King v. Burwell, 135 S.Ct. 2480 (2015); Utility Air Regulatory Group v. E.P.A., 134 S.Ct. 2427 (2014).

¹¹⁷ Federal Register notice and an opportunity to submit written data, views, or arguments are required by the Administrative Procedure Act, 5 U.S.C. § 553(b).

¹¹⁸ 77 Fed. Reg. 55028, 55032 (“The proposed fee structure helps facilitate effective administration of the patent system by encouraging applicants or patent holders to engage in certain activities that facilitate an effective patent system. In particular, setting fees at the particular levels proposed here will: (1) Encourage the submission of applications or other actions that enable examiners to provide prompt, quality interim and final decisions; (2) encourage the prompt conclusion of prosecution of an application, which results in pendency reduction, faster dissemination of information, and certainty in patented inventions; and (3) help recover the additional costs imposed by some applicants’ more intensive use of certain services that strain the patent system.”).

benefits, because new ideas can go to market faster and provide technological progress, job creation, and wage growth.”¹¹⁹

Thus, the record includes no specific discussion of how raising extension fees furthers those goals, and a rationale may be hard to come by, given the across the board application regardless of reason for delay or impact of delay. It is fair to ask why the USPTO has not done so, and whether it could, albeit belatedly, provide a valid rationale for its extension fee system.

Congress, of course, has the power to delegate certain types of decisions and judgments to administrative agencies and it has here delegated some decision making and judgment to the Commissioner of Patents. There is statutory authority to set a shortened period for response. It appears, however, that the Commissioner has simply adopted a blanket rule that, while Congress thought six months was a reasonable period to respond to the USPTO, the period of response should ALWAYS be reduced. In other words, the USPTO has substituted its judgment for Congress without explanation or justification.

Moreover, the USPTO has never changed the shortened statutory period, from the three months it initially set, suggesting that it does not have (or if it has, it has not exercised) any special expertise in determining what the appropriate period for response is.

The USPTO has not offered support for the regulation. It is, therefore, not a question of interpretation of an agency's own regulations, but rather whether the regulations have been validly adopted.

In addition, as required by Executive Orders 12,866¹²⁰ and 13,563,¹²¹ agencies are required to conduct a cost-benefit analysis, weighing the costs and potential impact on patent applicants against defined and quantified benefits to the agency and the public. The USPTO's stated rationale is that the extension fee “incentivizes an applicant to give more consideration to filing an extension of time request, and thereby facilitates the prompt conclusion of application processing”¹²²—far short of “defined and quantified” benefits. As part of its analysis, the USPTO should also have considered whether there were alternative, less costly means, for achieving the perceived benefits.¹²³

While the extension fee system may be an excellent component of

¹¹⁹ See REGULATORY IMPACT ANALYSIS, *supra* note 81, at 111.

¹²⁰ Regulatory Planning and Review, 58 Fed. Reg. 190 (Oct. 4, 1993).

¹²¹ Improving Regulation and Regulatory Review, 76 Fed. Reg. 14 (Jan. 21, 2011). For an analysis of the role of Executive Orders, see Erica Newland, *Executive Orders in Court*, 124 YALE L. J. 2026 (2015).

¹²² See REGULATORY IMPACT ANALYSIS, *supra* note 81, at 111.

¹²³ Exec. Order No. 12,866, 58 F.R. § 51735 (1993); OMB Circular A-4.

a patent system, the USPTO has not met its obligation to explain why that is so.

VI. OPTIONS

If the current system has not been adopted in conformance with the APA, three questions follow:

1. Can the USPTO salvage the system by complying with the APA;
2. Do patent applicants have any recourse for recovering extension fees paid to the USPTO?
3. Is there a better path for the USPTO to accomplish the objectives of improving the patent prosecution process?

A. *The USPTO's Options*

Compliance with the APA is mechanically simple. The agency merely needs to provide public notice of its proposed action, along with its justification.¹²⁴ The public is normally afforded an opportunity to comment on the proposal, the agency is obliged to consider the public comments, and the agency must then provide notice of the final form in which it will adopt the rule and an explanation of the basis for the rule.¹²⁵

The Supreme Court has "frequently reiterated that an agency must cogently explain why it has exercised its discretion in a given manner."¹²⁶ While others might speculate as to the rationale, the justification must be provided by the agency. Neither the commentators nor the courts can supply an *ex post facto* rationale on the agency's behalf.¹²⁷

The problem for the USPTO is whether it can, in fact, provide an acceptable rationale for its program. It has statutory authority to set a shortened period for response. The commissioner has, however, simply adopted a blanket rule that, while Congress thought six months (reduced from a year) a reasonable period to respond to the USPTO, the period of response will ALWAYS be set at three months.

¹²⁴ The agency is required to publish a notice of proposed rulemaking in the Federal Register and to give interested persons an opportunity to submit written data, views, or arguments. 5 U.S.C. § 553(b).

¹²⁵ Following publication of the Federal Register notice and receipt of public comments, the agency must then consider the relevant arguments and adopt final rules including "a concise general statement of their basis and purpose". 5 U.S.C. § 553(c).

¹²⁶ *Motor Vehicle Mfrs. Ass'n of U.S., Inc. v. State Farm Mut. Auto Ins., Co.*, 463 U.S. 29, 48 (1983).

¹²⁷ *S.E.C. v. Chenery Corp.*, 332 U.S. 194, 196 (1947). The court may not accept "appellate counsel's *post hoc* rationalizations for agency action." *Burlington Truck Lines, Inc. v. United States*, 371 U.S. 156, 168 (1962).

The USPTO asserts that this system “incentivizes an applicant to give more consideration to filing an extension of time request, and thereby facilitates the prompt conclusion of application processing, which assists in . . . [c]oncluding prosecution more quickly” which means that “new ideas can go to market faster and provide technological progress”¹²⁸

Assuming that prompt conclusion of the application process is a desirable goal then, at a minimum, the USPTO should explain how “more consideration” facilitates this prompt conclusion. It appears from the amount of revenue generated by extension fees that a large number of applicants (having, perhaps, given “more consideration”) still need (or choose to pay for) additional time.¹²⁹

A more detailed analysis might fairly raise the question of whether “prompt conclusion” is the goal in all cases. Consider, for example, the case of a small startup company with a revolutionary invention but a small staff and a limited budget. Given the demands on its staff, responding to a complex office action might require more than three months. Exceeding the three month shortened statutory period would then require the company to “give . . . consideration” to filing an extension petition. If the demands on its budget mean that, after this consideration, it cannot pay the extension fee, then the USPTO will have accomplished its goal of “concluding prosecution . . . quickly.” The view from the company’s side is quite different, though, which is that it loses its patent protection. Perhaps that means that the company never brings the invention to the public. An objective observer might well conclude that the broader goal of “promoting progress” has not been met.

The USPTO might then consider adopting a more nuanced regulation, perhaps giving more time to small entities and even more time to micro entities or at a minimum allowing a petition to include arguments as to why no extension fee should be due.¹³⁰

B. *The Applicants’ Options*

If the extension of time fee system was not validly adopted, patent applicants have a range of options for challenging it, and applicants who have already paid extension fees may have claims in the half billion to billion dollar range against the USPTO.

Options range from the highly risky refusal to pay the fees (the USPTO will hold the application abandoned under its current rules and

¹²⁸ See REGULATORY IMPACT ANALYSIS, *supra* note 81, at 111.

¹²⁹ See USPTO CONGRESSIONAL BUDGET JUSTIFICATION, *supra* note 1.

¹³⁰ Examples of justifications for waiver of the fee might include the complexity of the action taken by the USPTO, the reason for the need for additional time or the nature of the applicant. Thus, an applicant could choose between explaining the delay or taking the “no-fault” fee option.

the applicant will be forced to sue), to the less risky suit for mandamus to order the USPTO to amend or withdraw its regulation, to the somewhat friendlier petition to amend the regulations.

If the regulation requiring payment of a late fee is invalid, there is no need to comply with it. Thus, one approach would be to comply with the six-month statutory time limit and submit the required response without payment of the fee. Assuming that the USPTO refused to enter the applicant's response in the record and proceed with evaluating the patent application, the applicant could sue to compel entry of the response and further processing of the application.¹³¹ This approach would, of course, be risky, time-consuming and not cost-effective. The risk would be that the USPTO prevailed in court, with the result that the applicant would in all likelihood lose patent protection. A court proceeding would certainly take enough time that the application would exceed the six-month statutory period, resulting in abandonment.¹³² Because the term of a patent begins when the patent is issued and expires twenty years from the date the application was filed,¹³³ the time taken in litigation would reduce the term of patent protection. Finally, the cost of litigation would surely exceed the cost of even the most expensive petition for extension of time.

A safer course would be to file a petition asking the USPTO to withdraw the extension of time regulations. Under the APA, agencies are required to permit petitions for repeal or amendments of agency rules.¹³⁴ A parallel petition might be filed with the Congressional Budget Office, asking it to exercise its supervisory authority over federal administrative agency regulations.

If the USPTO declined to withdraw the late fee regulations, an applicant could ask the federal courts to order the USPTO to do so. While the cost would be significantly greater than the cost of filing the petition and paying the late fee, at least the risk of loss of patent rights would be eliminated.

Finally, the regulations could be challenged by paying the fees, then filing a suit to recover previously paid fees. A class action might claim on the order of a half billion dollars.

¹³¹ See 28 U.S.C. § 1361 (1962).

¹³² A procedure for reviving abandoned applications under some circumstances exists. It involves filing a petition and paying a fee (which currently ranges from \$850 to \$1,700 depending on the nature of the applicant). See 37 C.F.R. § 1.17(m) (2015).

¹³³ See 35 U.S.C. § 154(a)(2) (2013).

¹³⁴ See 5 U.S.C. § 553(e) (1966).

